

# Idaho Economic Forecast

C.L. "Butch" Otter, Governor

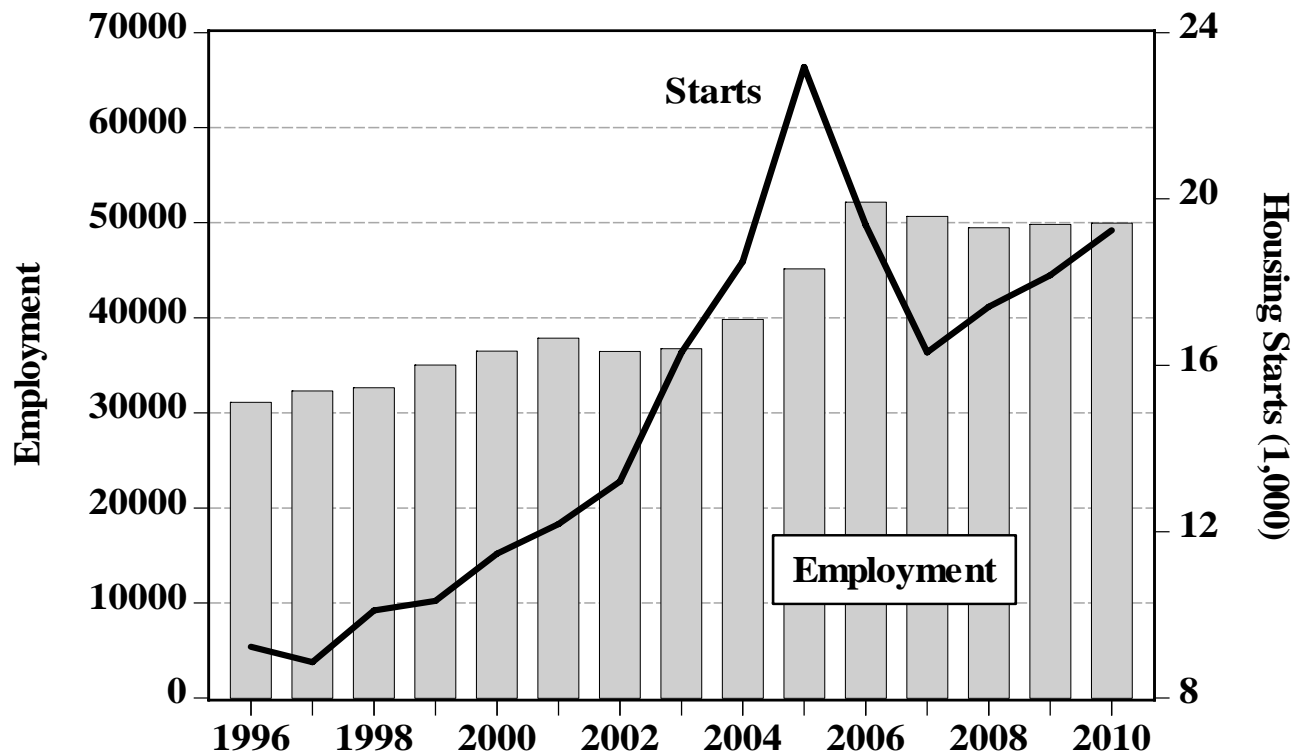
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- Forecast 2007-2010
- Will Fast Productivity Growth Persist?
- Alternative Forecasts

## Idaho Construction Employment and Housing Starts



**IDAHO  
ECONOMIC  
FORECAST  
2007 - 2010**

State of Idaho  
C.L. “BUTCH” OTTER  
Governor

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## PREFACE

Idaho's economy continues to grow and evolve as it enters the 21<sup>st</sup> Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and has consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit card companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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## **INTRODUCTION**

The national forecast presented in this publication is the April 2007 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the December 2006 Global Insight baseline national forecast.

Two key measures of the state's construction industry health are featured on the cover of this forecast. They are housing starts and construction employment. As the cover graph shows, it appears that after enjoying strong growth in recent years, this sector will retreat slightly over the forecast period. One item which jumps out from the chart is that the number of Idaho housing starts peaked in 2005 and will decline through this year. This decline was anticipated, although it may be slightly steeper than previously believed. In spite of this, we continue to see this decline as a move to a more sustainable level of starts rather than a retreat. The chart shows construction employment will also take two years to adjust, but the correction will not start until 2007.

## **FEATURE**

National economic productivity boomed in the early 1960s, but slowed for two decades beginning with the 1970s. It has surged again in the mid-1990s, but slowed since the middle of 2004. This change has raised questions whether the current productivity slowdown is just a "pause" in the boom which started in the 1990s or a return to the growth rates of the 1970s and 1980s. This issue's feature article begins to answer this question by focusing on the factors that underlay the most recent productivity boom and what this means for the future.

## **THE FORECAST**

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1993 to 2010 and for every quarter from 2004 through 2009. The solution of the Idaho Economic Model (IEM) for this forecast begins with the first quarter of 2007.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

## **CHANGES**

The historical employment data used in this forecast was provided by the Idaho Department of Commerce and Labor and was seasonally adjusted by the Idaho Division of Financial Management (DFM). These data include a preliminary estimate for the last quarter of 2006. These data show Idaho nonfarm employment growth pace had cooled to 2.1% from a blistering 8.4% in the first quarter of 2006. Despite this slowdown, actual employment in the last quarter was slightly higher in the fourth quarter than had been forecast in January 2007, 645,583 versus 644,249. Part of the reason for this gain is the stronger-than expected job growth in the third quarter of last year. In January 2007 it was predicted Idaho nonfarm employment would advance at a 1.6% annual pace. Instead, it grew 3.0% in that quarter.

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) March 2007 estimates of Idaho quarterly personal income through the last quarter of 2006. The BEA will release its next round of Idaho quarterly personal income estimates on June 21, 2007. These data will be incorporated into the July 2007 *Idaho Economic Forecast*.

The *Idaho Economic Forecast* is available on the Internet at [http://dfm.idaho.gov/Publications/Econ\\_Publications.html](http://dfm.idaho.gov/Publications/Econ_Publications.html). Readers with any questions should contact Derek Santos at (208) 854-3070 or at [dsantos@dfm.idaho.gov](mailto:dsantos@dfm.idaho.gov).

## SUBSCRIPTIONS

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